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TITLE: ARAB AID TO EGYPT

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LAST FILE: NFE 094/7(77)

NEXT FILE: NFE 09413 (79)

OTHER RELATED FILES:

ABU DHABI TL49

GR220

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TELELETTER

FROM: 'R L OWEN, ABU DHABI.

021/6 22 NOVEMBER 1978.

FOLLOWING FOR: K J PASSMORE ESQ, MEd, FCO.

CHANCERIES CAIRO.

DUBAI.

UKMIS NEW YORK.

JEDDA.

KUWAIT.

WASHINGTON.

BAGHDAD.

TEL AVIV.

ARAB/ISRAEL DISPUTE.

1. PLEASE REFER TO CAIRO TELEGRAM NUMBER 1044 OF 14 NOVEMBER TO FCO.

2. hah Ad 276/26  
K&T. 23 NOV 1978

Mr. Lucas 2/11  
Mr. Tatham 2/10

Pl. Copy to:

G. Boyce, MEd

→ P. Terry, MEd

Can you ask MEd Dep.  
for the article?

KIT.

NFE 09413	
23 NOV 1978	
SEARCHED	INDEXED
SERIALIZED	FILED
✓	89

2. WITH REGARD TO CAIRO'S BENEVOLENT ATTITUDE TOWARDS THE UAE (PARAGRAPH 4 OF TELEGRAM UNDER REFERENCE) WE HAVE SINCE LEARNT MORE OF THE BACKGROUND TO SHAIKH ZAID'S ALLEGED PROMISE TO CONTINUE AID TO EGYPT.

3. REPORTS WHICH CITED THIS PROMISE WERE BASED ENTIRELY ON AN ARTICLE IN THE FINANCIAL TIMES BY MRS KATHY BISHTAWI ON 9 NOVEMBER. MRS BISHTAWI, THE PAPER'S CORRESPONDENT RESIDENT IN DUBAI, INTERVIEWED ON 8 NOVEMBER YACOB AL KINDI, THE HEAD OF THE POLITICAL DEPARTMENT OF THE UAE MINISTRY OF FOREIGN AFFAIRS IN THE ABSENCE FROM ABU DHABI OF THE TWO MINISTERS IN THE MFA AT THAT TIME. AL KINDI, IT APPEARS, HAD INDEED MADE THE STATEMENTS REPORTED IN THE FINANCIAL TIMES ARTICLE BUT HAD DONE SO WITHOUT AUTHORITY AND WITHOUT CONSULTING HIS MINISTERS. MRS BISHTAWI HAD PROMPTLY FILED HER STORY, ALTHOUGH SOME OF HER JOURNALIST COLLEAGUES HERE HAD ADVISED AGAINST IT.





(5)

Mr. Bayne  
Mr. Torgue

## ARAB AID TO EGYPT

1. Mr. Torgue has asked for an analysis of present Arab aid flow to Egypt to determine what might be at risk in the aftermath of Camp David. He specifically asked about Kuwait.

2. My minute of 2 December gave the picture up until the end of last year. Since then Egypt has had another round of negotiations with the CODE States. (These provided Egypt with a \$2 billion loan in 1976 of which Saudi Arabia put up 40%, Kuwait 35%, the UAE 15%, and Qatar 10%). At these negotiations Egypt:

- i renegotiated the terms of the original CODE loan from repayment over 10 years to repayment in a lump sum in 23 years time;
- ii drew down the last \$100m remaining from the original loan;
- iii secured relief on the \$250m interest due in 1978/9 with the promise of further substantial write-offs;
- iv obtained a promise that the CODE States would underwrite \$150m's worth of short-term credits which Egypt might raise on the world markets; but
- v failed to persuade the CODE States to provide a further \$1 billion loan to increase their total commitment to \$3 billion.

This was a disappointment for Egypt but the cancelling of debt servicing and the decision to roll over the \$2 billion loan will be worth some \$500 m per year to Egypt. (\$200m in capital repayment and \$300m in interest).

3. Kuwait's contributions under these agreements will be worth some \$85m per year. In addition, the Egyptians reached a separate agreement under which Kuwaiti deposits in the Egyptian Central Bank would be maintained at their present level. (We do not know exact figures for these; but the World Bank estimated in January that over \$1 billion was deposited on one year terms and that most of this money was either Saudi or Kuwaiti). Kuwait also undertook to encourage Kuwaiti investment in Egypt and to set up an office for this purpose.

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4 The following new bilateral loans have been agreed this year:

- i \$21.5m from the Kuwait fund for Arab Economic Development;
- ii \$40m from the UAE;
- iii \$20m from the OPEC Special Fund;
- iv \$17.6m from the Arab Monetary Fund;
- v \$3.5m from Abu Dhabi;
- vi \$80m from Arab/African International Bank (in which Kuwait is the major partner).

The Khartoum and Rabat aid funds will also be made. They amount to:

	<u>Khartoum</u>	<u>Rabat</u>
Saudi Arabia	\$32.4m	\$170.5m
Kuwait	\$36m	\$70.4m

But payment of the Rabat funds is due to end this year under the terms of original agreement.

5 While Arab aid to Egypt has therefore not risen very much ~~in the first~~ <sup>in the first</sup> eight months Egypt has concluded agreements for aid, soft loans, commercial credits and investment finance as follows:

- i \$1.2b from US (mainly military aid worth \$800m);
- ii \$27m from Japan;
- iii \$116m from West Germany;
- iv \$50m from Austria;
- v \$72m from Canada.

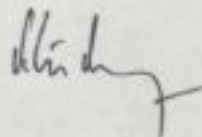
There is also our own offer to write-off Egyptian debts on our past aid programme (\$4m) and our offer of \$50m for the Cairo Sewerage project (\$98m). Multi-lateral aid includes the \$720m IMF Stand by credit and Trust Fund loan; and IDA loans of \$135m.

6 These various loans are either for balance of payments support or for project aid. Egypt's main short term problem remains with the balance of payments. The IMF estimated in June that Egypt would require \$600-700m balance of payments support this year, and the same amount in 1979. The balance of payments support element of the above commitments more than cover this requirement as follows:

First

	<u>1978</u>
First tranche of IMF Stand by credit	\$155m
IMF Trust Fund loan	\$60m
Element in Japanese loan for b.o.p support	\$150m
Arab Monetary Fund loan	\$17.5m
GODE interest relief	\$100m
Balance of GODE loan	\$100m
GODE guaranteed borrowings	\$150m
	<u>\$732.5m</u>

7 In short, while Egypt has this year received less aid from the Arab world she has got more from the West and will be able to balance her books while having a sizeable surplus for domestic investment. But she remains heavily dependent on Arab aid. Kuwait is a major donor and withdrawal of Kuwaiti aid would be a severe though not crippling blow. The key Kuwaiti decisions were taken last August; namely to continue their commitment to GODE and to agree that Egypt should use these funds for the next 23 years. It is difficult to see how Kuwait could go back on the commitments in para 2 above. ~~~~~~~~~ Kuwait does however have a weapon which could be used against Egypt: namely their short term deposits with the Central Bank. Withdrawal of them would be a damaging blow to the balance of payments.



P. J. Torry  
Near East & North Africa Dept

10 November 1978



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British Embassy  
Jeddah

094/1

9 October 1978

D. J. Plumbly, Esq.,  
British Embassy,  
CAIRO.

NFE 094/3	
12 OCT 1978	
1	2

Saudi Aid to Egypt

1. Thank you for your letter of 21 September about the continuation of Saudi Arabian aid to Egypt.

2. I am not sure that it is possible to separate political from economic factors when considering the question of Saudi aid to Egypt. It seems to me that, within certain limits, which are imposed by Saudi Arabia's general economic condition, Saudi aid to Egypt will always be based on a political decision. At least, I think that aid to Egypt will receive a priority over other recipients of aid. Ahmed Elwan implied this when he told Richard Weston recently that the Saudis no longer give budgetary aid "except, of course, to Egypt and Sudan". This is partly a reflection of the separate arrangements that have been made for giving aid to Egypt and partly a reflection of the political circumstances which would result from the overthrow of the Sadat regime. As you know from our previous reporting on this subject, we hold the view that the Saudi's aim is to keep Sadat in power for fear of what would follow him. One of their most effective means of trying to achieve this aim is the giving of financial support. In short I cannot answer the question you ask me because I do not believe it is a real question.

3. This is particularly true following the Camp David Agreements. The Saudi Response to these Agreements was less than enthusiastic, but did not make any commitments. An obvious question was, therefore, whether Saudi Arabia would continue to provide Egypt with aid. From the outset the American Embassy in Jeddah was clear that there would be no end to this aid. Ismail Shura confirmed this to Weston. Subsequently, the Saudis have, according to Al Cherg Al Awast, a London-based Arabic language newspaper primarily for the Saudi market, now stated publicly that this is true. The Minister of Finance, Mohammed Abu al Khail, said in Washington on 1 October that Saudi Arabia would not reduce economic aid to Egypt following the Camp David Agreements. This statement followed reports from Damascus to the effect that Saudi Arabia would cut military aid to Egypt. Abu al Khail did not specifically deny such reports but went on to say that Saudi Arabia is satisfied with the progress made with development projects in Egypt.

4. When I spoke to the Americans some time ago about aid to Egypt, the Counsellor told me that the American view is that financial support for Egypt would have to be on such a scale that neither the Saudis nor the United States could undertake it singly. The Americans were, however,

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2.

optimistic of a joint Saudi/American effort being able to provide adequate support. This is not to say that there will be any formal arrangements for giving aid. But I may have to revise all this if Saddam Hussain's call for an Arab summit is successful and his proposed fund is accepted.

T. P. Hollaway

c.c. N.E.M.A.D.,  
F.C.O.

ml

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TO PRIORITY FCO TEL NO 763 OF 31/7/78

REPEATED FOR INFO TO WASHINGTON, KUWAIT, JEDDA

SAVING TO QATAR BAHRAIN ABU DHABI

SEE: NFE 100/10

GULF AUTHORITY LOAN .

1. OVER THE WEEKEND THE EGYPTIAN PRESS HAS REPORTED THE RESULTS OF THE MEETING IN KUWAIT BETWEEN AN EGYPTIAN TEAM HEADED BY THE MINISTERS OF ECONOMY AND PLANNING AND A GODE TEAM HEADED BY THE KUWAITI FINANCE MINISTER (WHO IS THE CURRENT CHAIRMAN OF GODE).

REPRESENTATIVES FROM THE IMF AND THE WORLD BANK WERE ALSO PRESENT. THE OBJECT OF THE MEETING WAS TO NEGOTIATE FUTURE GODE AID TO EGYPT AND , IN PARTICULAR, BALANCE OF PAYMENTS SUPPORT.

2. PRESS ACCOUNTS DIFFER IN DETAIL. IT SEEMS THAT GODE HAS ONLY SO FAR AGREED TO LEND EGYPT ABOUT 300 MILLION DOLLARS, THE SUM STILL OUTSTANDING FROM THE 2,000 MILLION DOLLARS COMMITTED BY GODE LAST YEAR, TO HELP COVER THE BALANCE OF PAYMENTS DEFICIT.

3. A SEPARATE AGREEMENT WITH KUWAIT REPORTEDLY CONFIRMS THAT KUWAITI DEPOSITS IN THE EGYPTIAN CENTRAL BANK WILL BE MAINTAINED AT THEIR PRESENT LEVEL, AND PROVIDES FOR THE ENCOURAGEMENT OF KUWAITI INVESTMENT IN EGYPT AND THE ESTABLISHMENT OF AN EGYPTIAN OFFICE FOR THIS PURPOSE.

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/4. WE SHOULD

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4. WE SHOULD HAVE THE CHANCE TO CHECK THESE FIGURES DURING THE NEXT FEW DAYS. IT WOULD BE USEFUL ALSO TO HAVE ANY COMMENTS FROM JEDDA OR KUWAIT.

IF THIS IS ALL THE EGYPTIANS ARE GOING TO GET IN THE WAY OF BALANCE OF PAYMENTS SUPPORT FROM GODE THIS YEAR - THEY WILL BE DISAPPOINTED, AND HAVE TO RESORT TO OTHER SHORT-TERM BORROWING TO FILL THEIR PAYMENTS GAP.

5. FCO PLEASE PASS SAVING TO QATAR, BAHRAIN AND ABU DHABI  
BARRINGTON

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D E S Blatherwick Esq

CAIRO

Your reference

Our reference

Date 16 February 1978

ARAB AID TO EGYPT

①  
Thank you for your letter of 30 January. A copy of the OEIC paper on Arab Financial Flows to the Confrontation States was sent in draft form to the Embassy: Peter Moon commented on it in his of 12 December. The final version of the paper has just been finalized by the Cabinet Office and should reach you soon.

P J Torry  
Near East and North Africa Department

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BRITISH EMBASSY  
CAIRO

30 January 1978

NFE 09413

-2 FEB 1978

P J Torry Esq  
NEHAD  
POO

ARAB AID TO EGYPT

1. I am sorry that we have taken so long to reply to your letter of 2 December. - NFE 09417 (78) (2)

2. I suspect that you have more available information on the subject than do we: for example, we have not seen the OPEC paper on "Arab Financial Flows to the Confrontation States" referred to in Michael Burton's letter to Charles Powell of 22 December. Could you please send us a copy?

3. We have no substantive comments on the figures in the copy of the minute you enclosed with your letter. According to the US Embassy here, \$400 to 450 million of the present CODE loan is still outstanding, although its transfer has been agreed. Their information is that \$200 million of the \$625 million referred to in Peter Moon's letter to Charles Powell of 5 December has now been transferred, and at least \$50 million of this since the peace initiative began.

4. It is clear from your figures that a complete halt in Arab financial assistance (quite apart from a withdrawal of funds already committed) would do enormous damage to the Egyptian economy. The figures indicate that Arab civil aid to Egypt in 1977 reached a total of nearly \$3 billion. If one adds to this the \$1 billion from the Americans and sundry assistance from elsewhere the total involved approaches the cost of all Egypt's visible imports.

5. We would also underline the comment in the last sentence of your minute that the withdrawal of Arab support would, in addition to its direct effect, be a severe blow to Egypt's creditworthiness in the West. In practice it would be likely to result in Egypt's falling behind with many payments, with the consequent risk of withdrawal of BOGD and other comparable commercial credit arrangements.

*Handwritten signature*

*Handwritten signature*

D E S Blatherwick

cc: Chanceries: JEDDA, DOHA, KUWAIT, ABU DHABI

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